

**RURAL WATER DISTRICT NO. 8
SHAWNEE COUNTY, KANSAS**

**FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013**

And

INDEPENDENT AUDITOR'S REPORT

...KL...

Karlin & Long, LLC
Certified Public Accountants

10115 Cherry Lane
Lenexa, Kansas 66220
(913) 829-7676

2200 Kentucky Avenue
Platte City, Missouri 64079
(816) 858-3791

901 Kentucky Street, Suite 104
Lawrence, Kansas 66044
(785) 312-9091

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Financial Statements	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements	
Statements of Net Position	6
Statements of Activities and Changes in Net Position	7-8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-22
Supplemental Information	
Schedules of Insurance in Force	23

...KL...

Karlin & Long, LLC
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

To the Board of Directors
Rural Water District No. 8, Shawnee County, Kansas
Tecumseh, Kansas 66542

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 8 as of and for the years ended December 31, 2014 and 2013, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 8, Shawnee County, Kansas, as of December 31, 2014 and 2013, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water District No. 8, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Karlin & Long, LLC". The signature is written in dark ink and is positioned above the printed name of the firm.

Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
February 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Rural Water District No. 8, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2014 and comparative data for the fiscal years ended December 31, 2014 and December 31, 2013.

This information should be read in conjunction with the audited financial statements that follow this section.

During fiscal year 2004, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net position decreased by \$ 19,156. This was principally due to the investment in the Tri-District and depreciation expense.

The District realized a loss from operations of \$ 85,007, after recognizing depreciation and amortization expense of \$ 111,096.

Total cash on hand at December 31, 2014 was \$ 1,528,394 which was an increase of \$103,955 over the cash on hand on December 31, 2013.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

Financial Analysis

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed over the two most recent fiscal years.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11 - 23 of this report.

The District's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2014 and 2013 was \$1,548,980 and \$1,548,980, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 20-23 of this report.

Debt Administration

At the end of fiscal year 2014, the District had no debt outstanding.

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of rural Shawnee County.

As a product of an ongoing examination of how the District does its business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 3260 SE Tecumseh Rd., Tecumseh, KS 66542, or phone (785) 379-5553.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF NET POSITION

As of December 31, 2014 and 2013

	ASSETS	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 235,357	\$ 52,892
Certificates of Deposit	1,293,037	892,115
Accounts receivable	111,095	103,979
Inventory	41,472	33,284
Prepaid expenses	3,391	3,303
Total current assets	1,684,352	1,085,573
Noncurrent Assets		
Long-term investments	-	479,432
Total noncurrent assets	-	479,432
Investment in Tri-District	1,163,826	1,286,691
Property, plant, and equipment, net	1,509,674	1,548,980
Total Assets	<u>\$ 4,357,852</u>	<u>\$ 4,400,676</u>

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts payable	\$ 39,026	\$ 59,139
Accrued payroll taxes	-	3,609
Accrued payroll	17,306	17,252
Total current liabilities	56,332	80,000
Net Position		
Invested in capital assets	1,509,674	1,548,980
Unrestricted	2,791,846	2,771,696
Total net position	4,301,520	4,320,676
Total Liabilities and Net Position	<u>\$ 4,357,852</u>	<u>\$ 4,400,676</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION

For the years ended December 31, 2014 and 2013

	2014	2013
Revenues		
Water sales	\$ 868,596	\$ 847,835
Service charge	411,972	320,852
Tri-District expense reimbursement	20,625	31,262
City of Topeka	17,942	17,928
Miscellaneous	1,928	7,396
Total operating revenues	1,321,063	1,225,273
Cost of water purchased	623,746	790,148
Gross profit	697,317	435,125
Operating Expenses		
Depreciation and amortization	111,096	109,766
Wages	211,388	267,643
Payroll taxes	16,259	20,228
Employee pension and benefits	55,317	59,843
Repairs	87,358	49,358
Insurance	17,274	12,903
Power and light	7,475	5,912
Vehicle expense	15,015	10,224
Office expense	23,316	22,468
Meter reading	31,640	27,903
Telephone	5,594	6,044
Directors' expense	5,200	3,050
Legal	7,982	6,917
Accounting	4,200	4,950
Engineering	606	9,377
Tri-District Expense		34,426
Miscellaneous	12,590	7,772
Total operating expenses	612,310	658,784
Income (loss) from operations	85,007	(223,659)

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION

For the years ended December 31, 2014 and 2013

	2014	2013
Non-Operating Revenues (Expense)		
Interest income	1,702	18,146
Gain (loss) on investment in Tri-District	(116,865)	62,242
Total non-operating income (expense)	(115,163)	80,388
Net Income (loss) Before Contributions	(30,156)	(143,271)
Capital Contributions		
Benefit units sold	11,000	13,200
Contributions in aid of construction	-	-
Total capital contributions	11,000	13,200
Change in Net Assets	(19,156)	(130,071)
Net Position - Beginning of Year	4,320,676	4,450,747
Net Position - End of Year	<u>\$ 4,301,520</u>	<u>\$ 4,320,676</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,313,947	\$ 1,190,845
Miscellaneous cash receipts	1,928	7,396
Cash payments for goods and services	(875,868)	(984,901)
Cash payments to employees for services	<u>(282,964)</u>	<u>(347,714)</u>
Net cash provided by operating activities	157,043	(134,374)
Cash flows from investing activities		
Interest income	1,702	18,146
Sale of CDs	184,510	208,051
Purchase of CDs	<u>(100,000)</u>	<u>(166,045)</u>
Net cash provided by investing activities	86,212	60,152
Cash flows from capital and related financing activities		
Purchase of capital assets	(71,790)	(43,483)
Proceeds from sale of benefit units	11,000	13,200
Contributions in aid of construction	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(60,790)</u>	<u>(30,283)</u>
Net increase in cash and cash equivalents	182,465	(104,505)
Cash and cash equivalents, beginning of year	<u>52,892</u>	<u>157,397</u>
Cash and cash equivalents, end of year	<u><u>\$ 235,357</u></u>	<u><u>\$ 52,892</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 85,007	\$ (223,659)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	111,096	109,766
Changes in assets and liabilities		
Accounts receivable	(7,116)	(9,649)
Inventory	(8,188)	(3,997)
Prepaid expenses	(88)	(284)
Accounts payable	(20,113)	(2,147)
Accrued expenses	<u>(3,555)</u>	<u>(4,404)</u>
Net cash provided by operating activities	<u>\$ 157,043</u>	<u>\$ (134,374)</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Rural Water District No. 8, Shawnee County (the District) was organized under Kansas law and is accounted for as a business fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net position of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

Inventory

The District's inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are carried at original invoice amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 111,096 and \$ 109,776 for the years ended December 31, 2014 and 2013, respectively.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 2,200.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions.

Net Position

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation and related debt – This represents the District's total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Net Position (continued)

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of December 31, 2014 and 2013 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made in the preparation of the financial statements.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Deposits (continued)

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the District's carrying amount of deposits, including certificates of deposit, was \$ 1,528,394 and \$ 1,424,439 respectively, and the bank balance was \$ 1,529,790 and \$ 1,425,373 respectively, of which \$ 250,000 was covered by FDIC insurance. \$ 1,279,790 was collateralized by securities held in safekeeping pledged to the District.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

NOTE 4 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2014 and 2013.

NOTE 5 – Concentration of Suppliers

The District acquires 100% of its water from the City of Topeka and the Tri-District facility. There are no other suppliers of water available for this district.

NOTE 6 – Investment in Tri-District

In 1979, and as amended in 1980, the District entered into a joint venture agreement with Rural Water District No. 3 of Douglas County, Kansas and Rural Water District No. 5 of Osage County, Kansas for the purposes of construction a water treatment facility (Tri-District Facility). The following represents the interests of the Districts in the treatment facility:

Rural Water District No. 3, Douglas County, KS	35.00%
Rural Water District No. 5, Osage County, KS	30.00%
Rural Water District No. 8, Shawnee County, KS	35.00%

The above Districts are responsible for the operating expenses, debt and improvements of the Tri-District Facility based on the above percentages.

During 1996, the district entered into an interlocal cooperation agreement for construction and financial of improvements to the Tri-District facility. The total cost of the project was \$ 2,000,000. The District's share was \$ 700,000 which was funded by the District issuing \$ 400,000 of Water System Revenue Bonds, Series 1997 and using available cash. The Series 1997 bonds were refunded with the Series 2001 bonds, which matured in 2006.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Investment in Tri-District (continued)

During 2002, additional improvements to the Tri-District facility were completed. The total cost of the project was approximately \$ 1,600,000. The agreement required the district to share in approximately 35% of the improvement costs. The District used available cash to fund the project.

Under Governmental Accounting Standard No. 14 (GASB), the District has recorded their interest in the Tri-District Facility under the equity method of accounting. Under the equity method of accounting, all payments to the Tri-District Facility increase their investment. Net income of the Tri-District Facility increases their investment while a net loss reduces the investment. The following represents the unaudited statement of net assets and statement of revenue and expenses as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Statement of Net Assets		
Assets		
Cash and cash equivalents	\$ 180,056	\$ 169,508
Property, plant, and equipment, net	<u>3,492,307</u>	<u>3,869,722</u>
	<u>\$ 3,672,363</u>	<u>\$ 4,039,230</u>
 Net Assets		
Rural Water District No. 3	1,493,725	1,636,348
Rural Water District No. 5	1,014,812	1,116,191
Rural Water District No. 8	<u>1,163,826</u>	<u>1,286,691</u>
	<u>\$ 3,672,363</u>	<u>\$ 4,039,230</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Investment in Tri-District (continued)

The District has adjusted their investment to the above equity reported by the Tri-District. The Tri-District's financial statements have not been audited as of December 31, 2014 and 2013; as a result, the information recorded on the District's statement of net assets would change if there were adjustments made to the Tri-District's financial statements.

The following represents the statement of activities for the year ended December 31, 2014 and 2013:

Statement of Revenues and Expenses

	<u>2014</u>	<u>2013</u>
Water sales and fees	\$ 729,285	\$ 884,078
Operating expenses	<u>1,063,185</u>	<u>706,245</u>
Gain/Loss from operations	(333,900)	177,833
Interest income	<u>-</u>	<u>-</u>
Net Income (loss)	(333,900)	177,833
District's share	<u>35%</u>	<u>35%</u>
Gain (loss) in investment	<u><u>\$ (116,865)</u></u>	<u><u>\$ 62,242</u></u>

The gain (loss) on investment is reported in the nonoperating section of the District's statement of revenues and expenses. The above is for the years ended December 31, 2014 and 2013.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Defined Contribution Pension Plan

The District has established a defined contribution pension plan covering all of its employees. The plan is non-contributory for employees. The District contributes 10% of the employees' gross wages on a monthly basis to the plan. The Board of Directors has the authority to establish and amend benefit provisions. Pension expense for the years ended December 31, 2014 and 2013 was \$ 35,018 and \$ 33,380, respectively.

NOTE 8 - Leases

There were no significant leases in 2014 and 2013.

NOTE 9– Contracts

In 1979, the District entered into an agreement with the Tri-District Facility to purchase water. In 2014, the District purchased 146,405,000 at \$1.75 per 1,000 gallons plus a fixed monthly fee of \$2,100.

NOTE 10–Property, Plant, and Equipment

The following represents property, plant, and equipment of the District and does not include any assets of the Tri-District Facility:

	2014	2013
Meters	\$ 1,213,183	\$ 1,209,148
Distribution lines	3,143,210	3,136,339
Tanks	595,696	595,696
Land	33,300	33,300
Office building	88,852	88,852
Office equipment	73,120	72,500
Other equipment	188,598	128,334
	5,335,959	5,264,169
Accumulated depreciation	3,826,285	3,715,189
Book value	<u>\$ 1,509,674</u>	<u>\$ 1,548,980</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 10—Property, Plant, and Equipment (continued)**

The following represents a roll-forward of property, plant, and equipment as of December 31, 2014 and 2013:

	Beginning Balance	2013 Rollforward		Ending Balance
		Additions	Dispositions	
Meters	\$ 1,206,309	\$ 2,839		\$ 1,209,148
Distribution lines	3,110,907	25,432		3,136,339
Tanks	595,696			595,696
Land	33,300			33,300
Office building	88,852			88,852
City water tower	128,869		128,869	-
Office equipment	59,242	13,258		72,500
Other equipment	126,381	1,953		128,334
	<u>\$ 5,349,556</u>	<u>\$ 43,482</u>	<u>\$ 128,869</u>	<u>\$ 5,264,169</u>
	Beginning Balance	2014 Rollforward		Ending Balance
		Additions	Dispositions	
Meters	\$ 1,209,148	\$ 4,035		\$ 1,213,183
Distribution lines	3,136,339	6,871		3,143,210
Tanks	595,696			595,696
Land	33,300			33,300
Office building	88,852			88,852
City water tower	-			-
Office equipment	72,500	620		73,120
Other equipment	128,334	60,264		188,598
	<u>\$ 5,264,169</u>	<u>\$ 71,790</u>	<u>\$ -</u>	<u>\$ 5,335,959</u>

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 10—Property, Plant, and Equipment (continued)

The following represents a roll-forward of accumulated depreciation as of December 31, 2014 and 2013.

	Beginning Balance	2013 Rollforward		Ending Balance
		Additions	Dispositions	
Accumulated depreciation				
Meters	\$ (953,227)	\$ (19,897)	\$ -	\$ (973,124)
Distribution lines	(1,981,818)	(60,464)		(2,042,282)
Tanks	(422,652)	(21,749)		(444,401)
Office building	(81,957)	(1,772)		(83,729)
City water tower	(127,028)		127,028	-
Office equipment	(53,521)	(3,053)		(56,574)
Other equipment	(112,248)	(2,831)		(115,079)
	<u>\$ (3,732,451)</u>	<u>\$ (109,766)</u>	<u>\$ 127,028</u>	<u>\$ (3,715,189)</u>
	Beginning Balance	2014 Rollforward		Ending Balance
		Additions	Dispositions	
Accumulated depreciation				
Meters	\$ (973,124)	\$ (18,930)	\$ -	\$ (992,054)
Distribution lines	(2,042,282)	(62,375)		(2,104,657)
Tanks	(444,401)	(21,167)		(465,568)
Office building	(83,729)	(1,725)		(85,454)
City water tower	-			-
Office equipment	(56,574)	(1,465)		(58,039)
Other equipment	(115,079)	(5,434)		(120,513)
	<u>\$ (3,715,189)</u>	<u>\$ (111,096)</u>	<u>\$ -</u>	<u>\$ (3,826,285)</u>

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Meters	Straight Line	10-20 years
Distribution lines	Straight Line	33-50 years
Tanks	Straight Line	15-40 years
Office building	Straight Line	5-40 years
Office equipment	Straight Line	5-10 years
Other equipment	Straight Line	5-10 years

NOTE 11 – Compensated Absences

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees with six year or less of service are eligible for two weeks of vacation. Full-time employees seven or more years of service are eligible for three weeks of vacation. Vacation time that is not used during the year is lost. Employees accrue .50 days of sick leave for every month of service. Accrued sick leave is not paid at termination. No accrued sick leave is included in these financial statements due to the immateriality of the amount.

NOTE 12 – Prior Period Adjustment

Adjustment has been made to the Net Position – Beginning of year for the 2013 year due to the restatement of the value used to calculate the investment of the District in the Tri-District Facility. It was noted that in prior years, the Tri-District financial information had not been reduced by depreciation expense for several years which results in reduction of the District's investment. Beginning Net Position for 2013 was reduced by \$ 293,562.

NOTE 13 – Subsequent Events Review

Subsequent events for management's review have been evaluated through February 9, 2015. This is the date the financial statements were available to be issued.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2014

Property Covered	Coverage	Expires
Commercial property:	90% Coinsurance	4/8/2015
Building and personal property	227,097	
Water towers and equipment	920,000	
General Liability:		4/8/2015
Aggregate Limit -		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		4/8/2015
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Underinsured motorist	500,000	
Workmen's compensation:		4/8/2015
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		4/8/2015
Per loss	25,000	
Inland Marine	80% Coinsurance	4/8/2015
Property in transit	35,200	
Pipe fittings, valves, supplies	30,000	
Additional debris removal	5,000	
Pollutant Cleanup and removal	10,000	
Ford tractor	4,200	
Ford mower	600	
Ford scraper	400	
Linebacker Coverage		4/8/2015
Each loss	1,000,000	
Aggregate	1,000,000	